

## Marked drop in early funding could endanger medtech's future

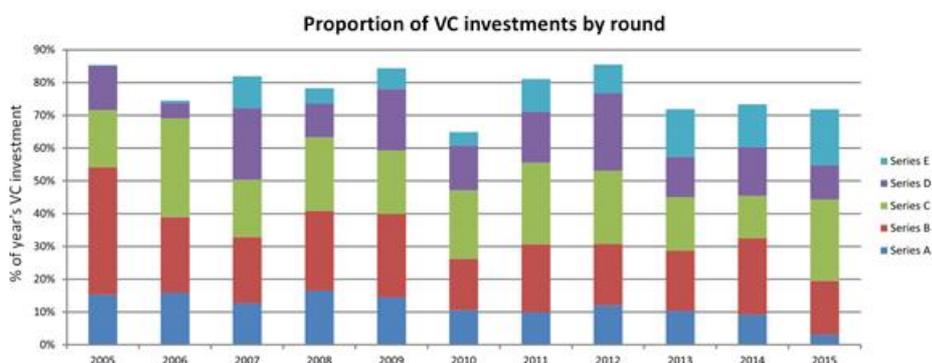


Elizabeth Cairns

Venture investors' increasing reluctance to back early-stage medtech companies has emerged as perhaps the clearest trend in the medtech sector over the past two or three years. Medtech's relative lack of clear clinical trial stages compared with biotech means that VCs can find the risks of early investment hard to judge, driving them towards safer bets on later-stage groups.

The shrinking proportion of venture cash going to A and B rounds – from 54% of total medtech VC investment in 2005 to just 19% so far this year (see graph below) – indicates just how dire the situation has become for start-ups. Series A funding in particular has plunged; though the average amount raised in A rounds has remained fairly steady, very few companies are these days managing to separate VCs from their cash.

In 2005 85% of the VC pot, a total of \$1.2bn, went into series A-D rounds, with a single \$5m series E round making up around 0.3%. By 2015 the A-D fraction had dwindled to 55% of the pot, with E rounds taking 17% of the total haul and later rounds, up to series I, accounting for a further 19%. These later rounds are excluded from the analysis below, as are undisclosed rounds.



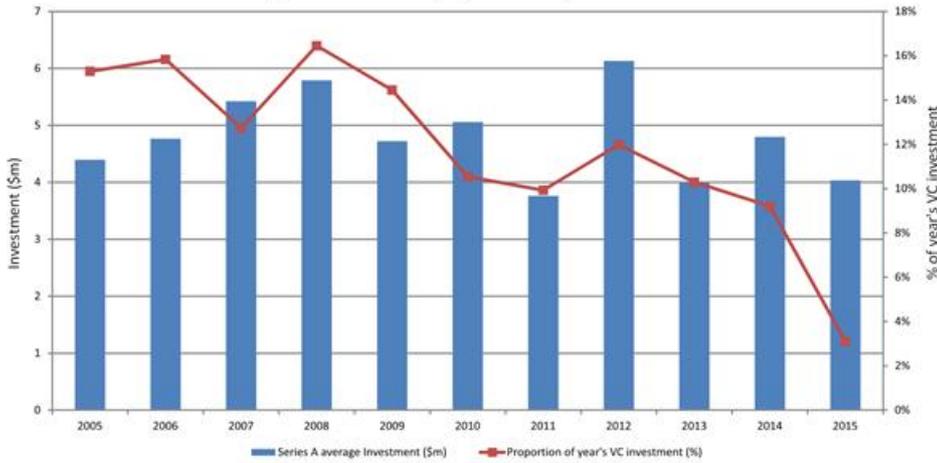
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In part this reflects the receptiveness of the markets to IPOs over the past 18 months, with companies raising large amounts of cash in later rounds immediately before floating. It is also partly a byproduct of the large-scale M&A activity over the same period, with billion-dollar groups merging with their peers rather than snapping up smaller companies. Unable to achieve a trade sale, these smaller businesses have sought later and later funding rounds to stay afloat.

But by far the largest explanatory factor is VCs' timidity when it comes to the kind of risks they used to take routinely. Unlike in the biopharma sector, medtech buyers will only take out smaller companies after they have gained approval for their technology and even begun to book sales ([More consolidation in medtech, but no early-stage joy](#), November 3, 2015). This longer timeline for an exit is naturally offputting to VCs.

The dwindling of series A funding over the past 10 years is startling. As a proportion of a given year's total VC funding it has slipped from 15% to just 3% – an 80% drop.

Series A average investment vs proportion of year's total VC investment

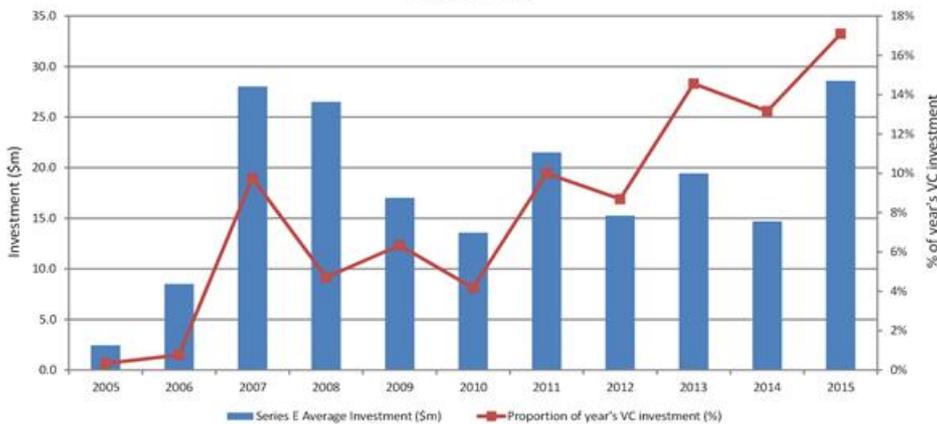


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The average amount raised each year in A rounds does not show a clear pattern, the low point being \$3.8m in 2011 and the high \$6.1m the following year. It appears that VCs are willing to put the same kind of sums into series A rounds, but see far fewer companies as worthy of that same investment.

And, as might be expected, the reverse pattern is seen with series E rounds. As a proportion of the VC pot, E rounds are growing fast, up more than 5,000% from 2005 to 2015. The average amounts raised in each year's E rounds vary quite widely and again display no clear trend, though the figure for 2015 is the decade's largest at nearly \$29m.

Series E average investment vs proportion of year's total VC investment



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A look at the largest rounds of the past decade provides another illustration of the conservatism of VCs. Devicor Medical Products, which sold a device used to biopsy breast tissue, and Adaptive Biotechnologies, a sequencing company, appear twice each in the top five.

The investors who sunk their cash into Devicor got their exit in the shape of its acquisition by Danaher in October last year. Financial terms were not disclosed but Jefferies analysts at the time estimated the purchase price at around \$550m; if this is accurate, the return might not have been spectacular.

Company	Financing round	Investment (\$m)	Financing date
Devicor Medical Products	Undisclosed	250.0	December 31, 2008
Mevion Medical Systems	Series H	200.0	August 4, 2015
Adaptive Biotechnologies	Series F	195.0	May 6, 2015
Adaptive Biotechnologies	Series E	189.5	January 21, 2015
Devicor Medical Products	Undisclosed	151.5	July 28, 2010
Valeritas	Series C	150.0	September 12, 2011
Proteus Digital Health	Series G	120.0	June 2, 2014
BioTelemetry	Undisclosed	110.0	March 26, 2007
Globus Medical	Series E	110.0	August 23, 2007
Oxford Nanopore Technologies	Series H	109.0	July 21, 2015
Small Bone Innovations	Series D	108.0	April 1, 2009

Adaptive Biotechnologies is one of two sequencing companies in the list, the other being Oxford Nanopore Technologies. This area is relatively appealing to VCs because it benefits from rapid advances in computing power, and requires relatively little initial expenditure.

Digital health is heavily represented too, and for much the same reason. BioTelemetry offers mobile software to record and analyse heart rhythms, and Proteus Digital Health has been one of the standout VC successes of the past year or so ([\*Proteus aims to change the shape of healthcare delivery\*, August 18, 2014](#)).

The rounds in the table are, of course, late ones, including one series G and two H rounds. So far funding rounds have not progressed past series I – CardioDx has closed a G, an H and the only I round in the sector’s history since it yanked its planned IPO in November 2013 – but a series J seems increasingly likely. After all, VCs certainly aren’t putting their money in A rounds.

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